

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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Tennessee Secretary

IN RE:)
UNIVERSAL SERVICE FOR RURAL AREAS)
GENERIC DOCKET)

DOCKET NO. 00-00523

SWORN TESTIMONY ON THRESHOLD ISSUES
GIVEN BY WILLIAM CHRISTOPHER JONES
ON BEHALF OF VERIZON WIRELESS

Question: *Please state your name and business address.*

Answer: My name is William Christopher Jones (W. Chris) and my business address is One Verizon Place, Mail Code: GA1B3LGL, Alpharetta, Georgia 30004.

Question: *By whom are you employed and in what capacity?*

Answer: I am the Associate Director of State and Area Public Policy for Verizon Wireless' Southeast Area.

Question: *Please describe your business experience.*

Answer: I joined Verizon Wireless in July, 2000, as part of the Bell Atlantic-GTE merger and am responsible for the company's participation in state legislative and regulatory agencies for the eight southeastern states of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Tennessee. From June, 1996 to

July, 2000, I served as Manager-Legislative Matters for GTE Wireless and I had responsibility for state and congressional affairs in 22 states. Before joining GTE Wireless, I worked in various external affairs jobs for GTE Service Corporation in Irving, Texas and Washington, D.C. from 1989 until June, 1996. From 1982 to 1989, I worked in various public affairs assignments for GTE Telephone Operations in Erie, Pennsylvania and Moultrie and Dalton, Georgia.

Question: *Is a universal service fund ("USF") needed at this time for areas served by rural carriers?*

Answer: I respectfully submit that such a fund is not currently needed. I discuss the creation of Tennessee's USF as viewed from the standpoint of a rapidly growing and very competitive wireless service provider seeking to compete in a mature, monopoly dominated market. Under the topic of establishing a USF, competition is a fundamental conceptual underpinning of both the Federal Telecommunications Act of 1996 ("Act"), as well as Tennessee's statutory response to that Act. Billions of dollars are being spent by a multitude of telecommunications providers across this country because state and federal policymakers have unambiguously and forcefully determined that the benefits of competition are worth the hardship of changing our whole system of regulation and the provisioning and deployment of services. Wireless services are an excellent case in point. The competitive market for wireless services has resulted in the explosion of constantly innovating and technologically exciting products for consumers, and those services are being provided to customers

for lower and lower prices. Whereas competition is a goal of the Act, consumers are those who benefit most from the opening of markets. America's policymakers did not start the market shift from monopoly providers to multiple providers simply because it seemed like a good idea. Competition is the best method to bring consumers multiple benefits: lower prices, more products, greater service, etc. All of this can occur – Verizon Wireless hopes – because consumers will be able to choose where and from whom they buy their telecommunications services and products. Again, the market for wireless services is illustrative of how competition benefits the consumer. Today, in most markets, customers can choose their wireless provider based on price, type of handset, coverage, call quality, data applications and the like. Customers choose their carrier based on their specific desires, and they can change their mind very, very easily. The establishment of a separate universal fund for rural telecommunications providers, and the associated surcharges and subsidies that coincide therewith, directly conflicts with the notion that competition will, over time, maximize customer utility. However, with that said, Congress, the FCC and the Tennessee legislature recognized that consumers would not experience the fruits of facilities-based competition or the benefits of open markets in all areas of the state overnight. So, for those areas where customer prices for basic telecommunications services would be too high, state and federal public policy continues to support the concept of universal service. As a result of the aforementioned, the TRA is faced with implementing the conflicting objectives of opening competition, while maintaining the philosophy behind universal service. The TRA must therefore

recognize the following tradeoffs that are involved in designing a statewide universal service fund.

First, basic local exchange service in Tennessee, taken as a whole, is currently priced very cheaply and does not need to be made “more affordable”, especially in light of the more than \$29 million of federal universal service subsidies already pouring into the state.¹ Most “rural” telephone companies in Tennessee, as well as other larger LECs, are already receiving significant federal USF support – a support system not likely to disappear in the near future. Recognizing the significance of these existing federal subsidies to companies who are high-cost providers helps keep the overriding goals of this case in perspective. Second, the bottom line in this case is that the service offered by many of the new market entrants and ILEC competitors will be assessed a new USF tax, with the proceeds of that tax paid over to the established incumbent carriers. In reality, the incumbents will receive virtually all of the new subsidy supports being designed in this case; certainly, for the near term. In reality, the ability of the newer competitive providers to access this new fund in any meaningful fashion is remote. The incumbents already have existing infrastructure in the ground and qualifying as an ETC in “high-cost” areas is a simple and familiar regulatory exercise for incumbent LECs. Colorado’s experience provides an insightful example. The initial Colorado USF was capped at \$60 million per year. The cap expired at the end of 1999, and this year, the PSC increased the fund size to \$72 million per year. Roughly one-third of that fund is made up of

¹ Trends in Telephone Service, FCC Report at 22-4 (March, 2000).

contributions from wireless providers, yet no wireless service providers are eligible to draw a dime from the fund. Moreover, in excess of 90% of the annual tax collected is paid to a single company, US West.

The harm that occurs in such a system is that competing products, such as wireless services, are much more “discretionary” in the eyes of most consumers, than is basic local exchange service. As prices for wireless services increase, as a result of this new tax, consumers and their spending choices are impacted. The fact that the same tax is paid to subsidize the wireline product doubles the negative impact. Wireless service will be even more expensive and wireline service in a high-cost area even cheaper. Subsidizing the wireline products and prices in these high-cost areas is extremely anti-competitive and discriminatory. In addition, the TRA should keep in mind that customers are already frustrated with the number of fees, taxes and other charges on their bills. They are already paying a federal USF tax. This new fund amounts to the creation of a new tax that will essentially be levied twice on the consumer – at home and on the customer’s wireless phone.

Question: *If the universal service fund for rural carriers is not needed at this time, when will the fund be needed?*

Answer: The fund for rural carriers will not be needed in the near future. As stated earlier, the incumbent LECs and rural carriers are already receiving substantial federal subsidies based on the enactment or establishment of the federal USF. Indeed, the Rural Task Force (“RTF”) just recently submitted a report to the FCC-State Joint Board on how

the current universal service support for rural carriers should be reformed. The RTF recommended that the Joint Board should base federal support to rural carriers on embedded costs. Given the comprehensive support that is available today, and would be available if the RTF's recommendation is adopted, only if these subsidies stop flowing to rural carriers, and only after further examining the market for increased competition, should an intrastate USF fund specifically designated to rural carriers be established for such companies.

Question: DOES THIS CONCLUDE YOUR TESTIMONY?

Answer: Yes.

STATE OF GEORGIA)
)
COUNTY OF FULTON)

I, William Christopher Jones, being first duly sworn, state that I am the Associate Director of State and Area Public Policy for Verizon Wireless' Southeast Area; that the testimony set forth and the statements contained therein are true to the best of my knowledge, except to those matters which are stated on information and belief, and as to those matters, I believe them to be true.

Dated: 11/14/2000

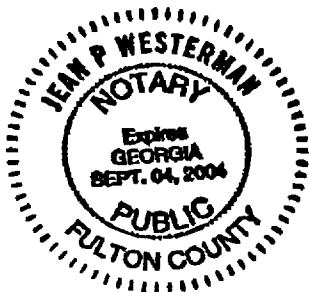
William Christopher Jones

William Christopher Jones
Verizon Wireless

SWORN TO AND SUBSCRIBED before me
this 14 day of November, 2000.

Jean P. Westerman
Notary Public

My Commission Expires: _____



JEAN P. WESTERMAN
Notary Public, State of Georgia
Qualified in Fulton County
Commission Expires September 04, 2004

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served by U.S. Mail, postage prepaid, this 14 day of November, 2000, upon the following:

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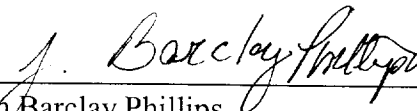
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